P 53/991

FET

# Foreign Economic Trends and Their Implications for the United States

FEBRUARY 1991

PHILIPPINES

FET 91-12
Frequency: Semiannual
Supersedes: 90-84

PREPARED BY
AMERICAN EMBASSY MANILA

U.S. DEPARTMENT OF COMMERCE
International Trade Administration
Washington, D.C. 20230

Available by subscription from the Superintendent of Documents, GPO, Washington, D.C. 20402. Annual subscription, $50.00. Foreign mailing $13.75 additional. Single copies, $1.00, available from Publications Sales Branch, Room 1617M, U.S. Department of Commerce, Washington, D.C. 20230.

C 61.11:

READEX FICHE best copy available

**PHILIPPINES: KEY ECONOMIC INDICATORS**
**(In millions of U.S. dollars unless noted)**

| | 1988 | 1989 | First Half 1990p/ | 1990 (Proj.) |
|---|---|---|---|---|
| **Domestic Economy** | | | | |
| Population (est. in millions) | 57.8 | 59.1r/ | 60.5 | 61.1 |
| Population growth (% est.) | 2.3 | 2.3 | 2.3 | 2.3 |
| GDP in current dollars | 39,149 | 44,348 | 23,145 | 46,692 |
| GNP in current dollars | 39,008 | 44,228 | 23,147 | 46,656 |
| Per capita GDP, current dollars | $677 | $730r/ | $382 | $764 |
| GDP in real terms (1972=100) % change | 6.37 | 5.61 | 2.69 | 2.6 |
| GNP in real terms (1972=100) % change | 6.75 | 5.67 | 3.40 | 2.8 |
| Consumer price index, average % change | 8.8 | 10.6 | 13.0 | 13.3 |
| **Production and Employment** | | | | |
| Labor force (thousands) | 23,449 | 24,120r/ | 23,954a/ | 24,820 |
| Unemployment rate (%) | 9.6 | 9.2 | 8.6a/ | 10.0 |
| Industrial prod. (1572=100) % change | 8.97 | 6.91 | 3.64 | 3.2 |
| Gov't budget deficit as % of GNP | 2.8 | 2.0 | 3.6 | 3.0 |
| **Balance of Payments** | | | | |
| Exports (FOB) | 7,074 | 7,821 | 3,902 | 8,100 |
| Imports (FOB) | 8,159 | 10,419 | 5,775 | 11,700 |
| Trade balance | (1,085) | (2,598) | (1,873) | (3,600) |
| Current-account balance | (373) | (1,465) | (1,229) | (2,800) |
| Foreign direct investment (inflow) | 1,077 | 972 | 377 | 870 |
| Foreign debt, as of end-of-period: | 27,915 | 27,616 | 26,969 | 27,300 |
| Debt-service paid (principal & interest) | 3,002 | 3,135 | 3,800b/ | 3,800 |
| Debt-service as % of goods & serv exports | 28.2 | 25.3 | 29.7b/ | 29.7 |
| Foreign exchange reserves | 2,059 | 2,324 | 1,974 | 1,600 |
| Average exchange rate (in Pesos/US$) | 21.095 | 21.737 | 22.769 | 24.00 |
| **Foreign Investment** (CB registrations) c/ | | | | |
| Total (cumulative) | 2,902 | 3,105 | 3,197 | 3,300 |
| U.S. (cumulative) | 1,649 | 1,718 | 1,747 | 1,800 |
| **U.S.-Philippine Trade** (Philippine data) | | | | |
| U.S. exports to Phil. (FOB) | 1,715 | 1,979 | 1,176 | 2,380 |
| U.S. imports (FOB) | 2,516 | 2,946 | 1,492 | 3,080 |
| U.S. trade balance with Philippines | (801) | (967) | (316) | (700) |
| U.S. share of Phil. exports (%) | 35.6 | 37.7 | 38.2 | 38 |
| U.S. share of Phil. imports (%) | 21.0 | 19.0 | 20.4 | 20 |
| **U.S. Bilateral Aid** (fiscal year) | 255.5 | 488.3 | na | 472.7 |
| Economic (includes food aid) | 127.9 | 360.7 | na | 330.1r/ |
| Security (includes training) | 127.6 | 127.6 | na | 142.7 |

**Principal U.S. exports (Jan-June 1990)**: consigned materials for garments and semiconductor manufacture, $305 million; electrical machinery (excluding sound recording/reproducing and telecommunications equipment, $121 million; industrial machinery, $96 million; wheat, $70 million; power-generating machinery, $61 million.
**Principal U.S. imports (Jan-June 1990)**: consigned garments and semiconductor devices, $607 million; apparel and clothing accessories, $180 million; electrical machinery and apparatus, $113 million; sugar, $86 million; sound recording/reproducing and telecommunications equipment, $70 million, coconut oil, $66 million.

---

a/First quarter, b/full-year estimate, c/principally exercised to assure repatriation rights, p/preliminary, r/revised, na/not available

**SOURCES**: Government of the Philippines, USAID

SUMMARY: Economic indicators in the first half of 1990 confirmed that the Philippines' four year-old recovery has entered a period of slower growth. The economic difficulties that surfaced in late 1989 -- rising inflation, high interest rates, and expanding fiscal and trade imbalances -- became more troublesome in 1990, and their effect on the economy's overall health was compounded by a drought and continuing political anxiety.

Gross national product (GNP) expanded by 3.4 percent in 1990's first half, compared with 5.4 percent in the first semester of 1989. The domestic economy, defined as gross domestic product, grew by a slower 2.7 percent. Agricultural performance was particularly poor, reflecting a six-month drought, though it was expected to improve in the year's second half. Investment growth was also sluggish, due largely to high financing costs as well as uncertainties over longer term economic and political prospects.

Inflation has continued to ratchet upward, averaging 12.5 percent through the year's first nine months. Further price increases are expected to develop as a result of higher petroleum prices, upward wage adjustments, and peso depreciation. Interest rates, meanwhile, have been above 25 percent for much of the year. Heavy government borrowing to finance the fiscal deficit has given a major upward boost to money costs, as have the efforts of monetary authorities to control excess liquidity.

Weak export growth, together with continuing heavy imports, contributed to a widening trade gap in 1990, which had reached $1.87 billion by mid-year and was expected to hit at least $3.6 billion by year's end. The current account imbalance was compounded in the third quarter by higher prices for imported oil. As of October, official foreign exchange reserves were reasonably healthy. The peso has been allowed to depreciate more rapidly in 1990, culminating in a one-shot 8.7 percent slide of the peso on October 31. The peso's real effective depreciation against the dollar was expected to improve the sluggish performance of Philippine exports.

The outlook for 1991 is for modest economic growth, continuing inflationary pressure, high interest rates, and unwieldy deficits in the fiscal and external accounts. Government economic planners are actively engaged in developing structural reforms designed to correct imbalances and put the economy back on track, but the short-term prognosis foresees a difficult adjustment period.

The overall slowing of the economy, together with tight foreign exchange supplies and peso depreciation, may reduce demand for consumer imports in the near term. However, the Philippine market for capital and intermediate goods remains strong. Prospects for telecommunications, construction materials, computers, and mining equipment are particularly bright.

Note: This report was prepared in December 1990

DOMESTIC ECONOMIC PERFORMANCE: Philippine gross domestic product (GDP) slowed to 2.7 percent growth during the first half of 1990, less than half the 5.8 percent expansion logged during the first six months of 1989. At 3.4 percent growth, GNP bettered GDP performance, reflecting the positive impact of strong overseas contract workers' remittances as well as interest savings following a debt-buyback transaction early in the year. Nevertheless, GNP failed to match the previous year's 5.4 percent expansion. The economic slowdown reflected the combined impact of a prolonged drought, infrastructure setbacks (most evident in power generation problems), rising financing costs, double-digit inflation, and lingering psychological effects of the December 1989 coup attempt.

Economic expansion remained consumer-driven. Personal consumption per capita improved by 3.8 percent in real terms over the first half of 1989. Government consumption failed to sustain the previous year's 9.2 percent growth performance, reflecting growing concern over a burgeoning fiscal imbalance. Capital formation, necessary for the transition to a more sustainable investment-led recovery, registered a lethargic 3.8 percent year-to-year expansion, compared with 28 percent growth during the first six months of 1989. Gross investment has yet to recover to its 1981 pre-crisis peak. Inventory drawdowns, consistent with sustained consumer demand in the wake of weaker agricultural and manufacturing performance, explained part of the overall investment slowdown. Fixed capital formation decelerated from 26 percent to 14 percent growth. Growth was particularly sluggish for additional investment on durable equipment.

On the production side, expansion of all major sectors -- agriculture, industry, and services -- tapered. The agricultural sector's weak 0.2 percent growth, largely the result of drought-damaged crop harvests, explained about 60 percent of the overall slowdown in GNP. Industrial output, stunted by rising financing costs and production interruptions wrought by frequent power outages, slowed from an expansion of 6.9 percent to 3.6 percent. Manufacturing, which accounts for about three-fourths of total industrial production, slipped to 2.8 percent growth, less than half its comparable 1989 performance. Weaker service sector performance reflected reduced rates of expansion in banking and financing activities, consistent with rising interest rates and slower investment spending.

The country faces a difficult second half of 1990, grappling with a worrisome fiscal deficit, damage by a July earthquake to the already inadequate state of infrastructure, and uncertainties in the Middle East (on which the country depends heavily for both oil and workers' remittances). On a more positive note, agricultural production in the year's second half is expected to be quite strong. Current indications are, at best, for the economy to sustain the 2.6 percent GDP expansion through June up to the end of the year, with GNP growing at a slightly faster 2.7 to 2.8 percent.

GNP BY PRODUCTIVE SECTOR
JANUARY-JUNE 1989 & 1990
(At Constant 1972 Prices)

| SECTOR | In Million Pesos 1989 | 1990 P/ | Year-to-year Growth 1988-89 | 1989-90 P/ |
|---|---|---|---|---|
| AGRI, FISHERY, FORESTRY | 14,316 | 14,340 | 4.25 | 0.17 |
| INDUSTRY | 17,692 | 18,336 | 6.86 | 3.64 |
| Mining & Quarrying | 795 | 809 | (2.21) | 1.76 |
| Manufacturing | 13,165 | 13,537 | 5.78 | 2.83 |
| Construction | 2,683 | 2,894 | 15.95 | 7.86 |
| Basic Utilities | 1,049 | 1,096 | 6.71 | 4.48 |
| SERVICE SECTOR | 20,905 | 21,661 | 5.90 | 3.62 |
| Transport & Communic | 2,865 | 2,959 | 5.25 | 3.28 |
| Trade | 8,073 | 8,383 | 5.02 | 3.84 |
| Finance & Housing | 3,324 | 3,512 | 10.36 | 5.66 |
| Private Services | 3,301 | 3,433 | 4.86 | 4.00 |
| Government Services | 3,342 | 3,374 | 5.36 | 0.96 |
| GROSS DOMESTIC PRODUCT | 52,913 | 54,337 | 5.76 | 2.69 |
| Net Factor Income | (356) | 6 | | |
| GROSS NATIONAL PRODUCT | 52,557 | 54,343 | 5.43 | 3.40 |

P/Preliminary estimates as of August 1990
Source: Philippine National Income Accounts

PRICES AND INTEREST RATES: Two-digit inflation, as measured by the Consumer Price Index (CPI), has been a major concern since July 1989. Year-to-year inflation for the first six months of 1990 averaged 13 percent, compared with 8.6 percent during the first half of the previous year. The impact of a prolonged drought on food supplies, the lagged effects of a July 1989 legislated wage hike and a December 1989 adjustment of government-regulated fuel prices, subsequent increases in transport and utility costs, rising interest rates and a faster depreciation of the peso pushed up consumer prices. Recent estimates show lower average year-to-year inflation of 11.6 percent during the third quarter, largely because events during the second half of 1989 produced a relatively high CPI base during that period. Average inflation was 12.5 percent from January through September.

Current indications point to higher inflation during the last quarter of 1990. In September 1990, the government increased fuel prices to reflect the rising cost of crude following the Middle East crisis. Those adjustments have triggered further increases in utility charges and government-regulated transport fares. The increased cost of living has prompted labor demands for another round of wage adjustments, and the minimum wage in Manila rose by 19 percent on November 1. Peso depreciation, especially following an 8.7 percent slide in late October, will further boost prices. Monetary officials continue to grapple with excess liquidity, produced partly by a worrisome national government fiscal deficit. We expect an average inflation rate of between 13.2 and 13.7 percent for the year.

Bank lending rates remain high, taking their cue from increases in treasury bill and open market rates. Lending rates on secured loans averaged 27 percent as of late September, with limited prospects of easing significantly by year's end. With liquidity levels currently above programmed levels and strong inflationary pressure expected during the last quarter, monetary policy will likely remain tight for the remainder of 1990.

FISCAL POLICY: Beginning in mid-1990, the government's fiscal deficit expanded rapidly, to the point that deficit reduction had become the most urgent economic policy preoccupation by late in the year. Government officials blame the ballooning deficit on unexpectedly rapid expenditure for capital projects and domestic interest payments at a time when revenue collections began to lag behind targets. By the end of August, the national government's cash deficit amounted to 27.7 billion pesos, 45 percent higher than the target level. Serious deficits also arose in the accounts of government corporations and the Central Bank, leading to projections of a 60 billion peso consolidated public sector deficit by year's end. A deficit of this magnitude would represent roughly 5 percent of national income, well beyond the targeted deficit/GNP ratio of 3.3 percent.

By September, the looming fiscal deficits stood as the most immediate obstacle to continued support from the International Monetary Fund and access to international credit markets. In early October, the administration ordered several belt-tightening measures, such as the deferral of unobligated capital expenditures through the end of 1990 and selective reduction of maintenance and operating expenditures.

Further, the executive and legislative branches have engaged in extensive negotiations on how to reduce projected deficits in 1991 and 1992. It appeared likely that the Aquino administration's original budget submission for 1991, which totalled 297.4 billion pesos, would be scaled back by around 25 billion pesos. The administration has proposed the implementation of an import surcharge to garner additional revenues. Congressional leaders, for their part, continue to push for more efficient collection of existing taxes.

EXTERNAL ACCOUNT: Even considering the positive impact of debt rescheduling, the Philippines' posted a balance-of-payments (BOP) deficit of $231 million during the first half of 1990. That deficit compared favorably with 1989's first half gap of $384 million, but the sources of improvement were limited to the service and short-term capital accounts.

The current account deficit slipped to $1.2 billion, 60 percent (or $462 million) wider than during the first half of 1989. The merchandise trade gap, which ballooned from $1.2 billion to $1.9 billion, explained the bulk of that deterioration. Merchandise exports grew by a weak 3.7 percent, lagging far behind the import bill's 17.6 percent expansion. Inflows of aid and grants, smaller by $176 million, also contributed to the wider current account deficit. In the current account,

only services logged an improvement, having shifted from a $70 million deficit to a $366 million surplus. That reflected a 20 percent ($403 million) expansion in inflows, the bulk (45 percent) explained by higher overseas contract workers' remittances, followed by operating funds brought in by multinationals. Lower interest payments following efforts to reduce the country's foreign debt stock also contributed to the improved non-merchandise trade balance. Foreign exchange receipts from tourism, however, suffered a 3.5 percent setback, following the adverse publicity generated by the December coup attempt and infrastructure problems.

The capital account surplus widened in the first semester from $190 million to $262 million due to higher short-term capital flows. The medium- and long-term capital account deficit widened to $322 million, 64 percent over the previous year's gap. Inflows doubled to $2.1 billion, but outflows also doubled to $2.4 billion to reflect a debt buyback transaction early in the year. Foreign investment netted out at a $232 million surplus, 27 percent ($86 million) lower than in the first half of 1989. New foreign investment yielded a $30 million expansion in inflows, which was outpaced, however, by a higher level of capital withdrawal.

Post-earthquake and Middle East crisis projections indicate a likely BOP deficit of roughly $200 million to $300 million for the year, the first deficit since 1983. That mainly reflects an expected merchandise trade gap of between $3.6 to $3.8 billion, more than 1 billion dollars above the $2.6 billion logged in 1989. The BOP gap could substantially exceed projections, however, if expected inflows of external financing are delayed until 1991.

FOREIGN EXCHANGE: Philippine exchange rate policy has evolved towards a more rapid depreciation of the peso in 1990. As a result, the peso's nominal dollar value dropped by 14.2 percent from January to October, and the real effective rate of depreciation against the dollar was 7.2 percent. Weighed against a basket of currencies of major trading partners, the peso dropped by 10.3 percent in real effective terms; the real drop against the currencies of major trade competitors was lower, at 6.9 percent through mid-October. After temporarily arresting the depreciation trend during September and October, the Central Bank allowed a further depreciation of 8.7 percent, to a rate of 28 pesos per dollar, on October 31.

The drop in the peso's value is widely viewed as improving the Philippines' competitiveness in world export markets. However, the country's monetary authorities remain wary of speculative reactions to peso depreciation and potential inflationary effects. The Central Bank continues to intervene in interbank foreign currency trading in order to stabilize the official reference rate. In September, the Central Bank imposed strict limits on the margins above and below the reference rate that commercial banks may offer in foreign exchange transactions. However, the 8.7 percent slide of the peso on October 31 clearly demonstrated an official recognition that a lower peso value will enhance the country's competitive position.

As of late September, gross international reserves stood at just above $2 billion, roughly enough to cover 1.5 months of imports. However, increasingly wide imbalances in the current account, compounded by the substantial increase in imported crude oil prices beginning in August, have raised fears of future foreign exchange shortages. Since late August, some importers have reported difficulty in obtaining foreign exchange through normal commercial bank channels.

As of October, the relatively safe level of reserves and a leveling of non-oil imports indicated that a foreign exchange shortage is not an immediate prospect. However, the medium-term foreign exchange outlook depends on the government's success in lining up external financing from multilateral lending agencies and other official and bilateral creditors.

FOREIGN TRADE: The Philippines' merchandise trade deficit for the first half of 1990 grew 63 percent from $1.15 billion to $1.87 billion. Both export and import growth were slower than projected, though imports continued to outpace exports. Compared with the first half of 1989, exports grew a disappointing 3.7 percent while imports grew a still sizeable 17.8 percent. This semester's trade performance reflected a slowdown in investments, and growing concern over the stability of the Philippine peso and increasing costs of financing. The Philippines' top three trading partners remain the United States, Japan, and the EEC, which together accounted for 60 percent of the country's total trade during the first semester.

The Philippines enjoyed trade surpluses with only two trading partners -- a substantial $600 million with the United States (according to U.S. Government trade data for January - August 1990) and $9 million with the EEC. Philippine exports to the United States continued to grow, and this performance was reflected in a 20 percent widening of the U.S. trade deficit with the Philippines, from $500 million in January - August 1989. As the Philippines' number one trading partner, the United States purchased 38 percent of Philippine exports for the first six months of 1990. Supplying 20 percent of Philippine imports during this period, the United States regained its position as top commodity supplier to the Philippines. Japan, accounting for 18 percent of the Philippine's total trade, realized a $300 million trade surplus.

The Philippine trade deficit is projected to reach $3.6 billion by the end of the year. High oil prices will add to the already high import bill while an economic slowdown will be reflected in continued low export growth.

Exports: Export growth rates for most Philippine products have been disappointing. Unfavorable developments in the world market and the domestic front contributed to this trend. The continuing world supply glut of many resource-based products, particularly shrimp/prawns, minerals and coffee, kept commodity prices low. Higher wages, frequent power outages, and high interest rates added to production costs, eroding Philippine

competitiveness and hampering expansion and modernization plans for existing manufacturing plants. Finally, the lack of new foreign investment limited development of new export industries.

Philippine exports continue to be characterized by a heavy reliance on consigned exports and imported inputs. The contribution of consigned garments and electronic devices to the country's total exports grew from 40 percent to 44 percent between the first half of 1989 and the first half of 1990. Nevertheless, significant contributions to the 3.7 percent export growth came from more traditional export products. A 53 percent increase in the volume of sugar shipments, combined with an 8 percent price increase, translated into 65 percent growth in sugar receipts. Although coconut product prices remained low, this was outweighed by improved export volumes, leading to a $31 million (20 percent) gain for the industry in the first half of the year. Starting mid-year, however, it appeared that volume would no longer be able to offset low prices, and the year-end total for coconut exports is expected to be 12 percent below the 1989 level.

Top Philippine Exports
(FOB in $US millions)

| | Jan - June | | Increase(Dec) | |
|---|---|---|---|---|
| | 1990 | 1989 | Value | Pct |
| Total Export Value | 3,902 | 3,762 | 140 | 3.7 |
| Manufactures | 2,649 | 2,399 | 250 | 10.4 |
| Electrical, electronic & telecom equipmt & parts a/ | 877 | 831 | 46 | 5.5 |
| Garments a/ | 833 | 660 | 173 | 26.2 |
| Chemicals | 120 | 128 | (8) | (6.2) |
| Processed food & beverages | 101 | 99 | 2 | 2.0 |
| Mineral Products | 352 | 432 | (80) | (18.5) |
| Copper metal (cathodes) | 139 | 162 | (23) | (14.2) |
| Copper concentrates | 101 | 137 | (36) | (26.3) |
| Coconut Products | 258 | 231 | 27 | 11.7 |
| Coconut oil | 185 | 154 | 31 | 20.1 |
| Fruits & Vegetables | 162 | 165 | (3) | (1.8) |
| Bananas | 75 | 74 | 1 | 1.4 |
| Canned pineapple | 38 | 42 | (4) | (9.5) |
| Other Agro-based Products | 203 | 250 | (47) | (18.8) |
| Shrimp & prawns | 89 | 127 | (38) | (29.9) |
| Sugar & Products | 104 | 66 | 38 | 57.6 |
| Centrifugal & refined | 86 | 52 | 34 | 65.4 |

a/ Mostly consigned exports
Source: Central Bank of the Philippines

Imports: The Philippines' trade deficit in the first half of the year would have been larger were it not for the slower than expected 17.8 percent import growth. In comparison, import growth for the same period in 1989 had been 29 percent. The slowdown was evident in all product groups from raw materials to consumer goods. For raw materials and intermediate goods, import growth fell from nearly 19 percent to 10 percent; for capital goods, growth rate declined from 60 percent to 35 percent; for crude oil, import growth dropped from 29 percent to just 9 percent; and finally, the 54 percent import surge for consumer goods went down to 34 percent.

Areas of relatively high import growth during this period reflect the heavy import dependence of Philippine export manufactures, particularly garments and electronic devices, and the emphasis on infrastructure development. For example, significant increases in imports of power-generating equipment, telecommunications equipment, and land transportation are the outgrowth of government programs designed to counteract shortages in these areas. Crude petroleum, the single largest import, grew at a relatively slower rate in 1990's first half, but continued to account for 11 percent of the import bill during this period. Rising crude prices in the wake of Iraq's invasion of Kuwait were expected to give a significant boost to the year-end import total.

Top Philippine Imports
(FOB in US$ millions)

| | Jan - June | | Increase(Dec) | |
|---|---|---|---|---|
| | 1990 | 1989 | Value | Pct |
| Total Import Value | 5,775 | 4,913 | 862 | 17.8 |
| Raw Materials & Intermediate Goods | 2,743 | 2,491 | 252 | 10.1 |
| Mat/Accessories for Manufacture of Electronic equipment b/ | 486 | 430 | 56 | 13.0 |
| Iron & steel | 241 | 316 | (75) | (23.7) |
| Embroideries b/ | 214 | 208 | 6 | 2.9 |
| Textile yarn, fabrics and made-up articles | 257 | 204 | 53 | 26.0 |
| Chemical compounds | 229 | 196 | 33 | 16.8 |
| Artificial resins | 164 | 135 | 29 | 21.5 |
| Capital Goods | 1,552 | 1,151 | 401 | 34.8 |
| Power-generating & specialized mach | 644 | 495 | 149 | 30.1 |
| Telecomm equipment & elect. mach. | 461 | 354 | 107 | 30.2 |
| Land transport(excl passenger cars) | 153 | 105 | 48 | 45.7 |
| Mineral Fuels & Lubricant | 792 | 739 | 53 | 7.2 |
| Petroleum crude | 660 | 606 | 54 | 8.9 |
| Consumer Goods | 514 | 383 | 131 | 34.2 |
| Dairy products | 125 | 105 | 20 | 19.0 |
| Passenger cars & motorized cycle | 112 | 95 | 17 | 17.9 |

b/ Mostly consigned imports
Source: Central Bank of the Philippines

INVESTMENT: Investment growth tumbled sharply in the first half of 1990, extending a trend that began in late 1989. The slowdown developed as high interest rates, rising inflation and political concerns combined to discourage spending on new or expanded productive capacity. In 1990's first half, gross capital formation was only 3.85 percent higher than in 1989's first semester. This compared to 27.9 percent growth in the first half of 1989, and 15.6 percent for 1989 as a whole. Durable equipment expenditures, meanwhile, slowed to 16.5 percent growth from 37.9 percent in the first half of 1989.

Investment's share of total GNP in the first half of 1990 was 17.9 percent, a slight improvement over the 17.2 percent rate logged in 1989. The government hopes to achieve a 24 percent GNP share for investment by 1992, at which level economic expansion could be sustained in the 6.0 - 6.5 percent range.

Net foreign investment inflows, as measured in the balance of payments, totalled $232 million in the first half of 1990, a 27 percent annual decline. While gross inflows increased slightly, to $377 million, capital repatriations worth $145 million pulled the net figure down sharply.

Performance of both domestic and foreign private investment is expected to remain sluggish through the remainder of 1990. The high cost of borrowed capital remains a major impediment to expanded investment, as does continuing concern over domestic economic and political events. Proposed changes to the country's foreign investment laws may raise inflows of foreign capital, but the final form of the new legislation remains uncertain.

LABOR DEVELOPMENTS: Man-days lost due to strikes continues to show a downward trend, which began in 1988, an encouraging indicator for the potential investor. The minimum wage was increased by 39 percent in 1989, to 89 pesos ($3.45) per day. Unions have called for a further increase in basic rates to help cushion the shock of higher oil prices. An increase in pay of 15 percent for most workers is expected by the end of the year.

The unemployment rate rose slightly from 8.4 percent in January 1989 to 8.6 percent in January 1990. The government estimated the growth of employment in the same period at 700,000, with total employment of 21.97 million people. Employment growth must continue in this range to keep up with labor force growth. An economic slowdown and demands for higher wages could spell higher unemployment for 1990.

PROSPECTS FOR THE FUTURE: After nearly four years of solid expansion, the Philippine economy faces serious challenges. Shocks such as the Middle East crisis, the July 1990 earthquake, and a prolonged drought have aggravated economic imbalances that started to appear in late 1989. Preoccupation with domestic political events has slowed movement on the

structural reforms needed to return the economy to solid growth. Imbalances in the country's fiscal and external accounts have widened seriously, and painful measures will be needed to correct these deficits.

We expect the economy's performance in 1990 to fall to around 2.8 percent GNP growth, with year-to-year inflation increasing to perhaps 16 to 17 percent by December. The outlook for 1991 depends heavily on movement in world oil prices, and on progress in implementing economic reforms. The "best guess" scenario seems to be for modest GNP growth, high interest rates and, at least through June, rising inflation.

The slowdown in economic expansion has caused the Philippines' economic policymakers to pursue an ambitious program of structural adjustment. The immediate objective is to reverse the growth of the fiscal deficit, a major contributor to inflation and high interest rates. Other proposed reforms are aimed at improving the country's ability to compete, through the adoption of an export-led growth strategy. A far-reaching restructuring of the country's import tariff schedule and a greater openness to foreign investment are two steps currently under consideration. These reforms are controversial, but the policy debate is constructive, and contains the seeds for a return to stronger economic growth.

IMPLICATIONS FOR U.S. BUSINESS: The short-term economic situation is a matter for some concern. The utilization of foreign aid for infrastructure projects continues to improve, however. There are many solid opportunities for U.S. traders and investors who are willing to make the necessary efforts. Those who are already taking advantage of them report that they are doing well.

The best sectors for U.S. goods and services include:

Telecommunications equipment
Building materials and supplies
Architectural, construction and engineering services
Computers and peripherals
Mining and extraction equipment
Safety and security equipment
Medical, industrial and scientific instrumentation
Hotel and restaurant eqipment
Materials handling equipment
Electric power equipment
Renewable energy resources
Solid waste and waste water treatment equipment
Printing and graphic arts
Used and refurbished equipment

FY 1991 U.S. EXPORT PROMOTION EVENT SCHEDULE

| | |
|---|---|
| February 1991 | Direct From The USA Catalog Show (Manila, Cebu, Davao) |
| Feb. 2 - 6, 1991 | Construction USA Video Catalog Show |
| Feb. 20 - 28, 1991 | Instrumex Asia '91 Instrumentation Trade Fair |
| April 1991 | Growth Industries Catalog Show |
| April 13 - 19, 1991 | Machine Build '91 Machine Tool Trade Fair |
| May 1991 | Direct From The USA Catalog Show (Manila, Cebu, Davao) |
| May 15 - 19, 1991 | Telecomex Asia Telecommunications Trade Fair |
| June 27 - 28, 1991 | Sporting Goods Video Catalog Show |
| August 1991 | Direct From The USA Catalog Show (Manila, Cebu, Davao) |
| August 13 - 17, 1991 | Industrial Chemicals '91 Trade Fair |

© U.S. Government Printing Office : 1991 : 282-908/20013

Spot Tomorrow's Trends for Making Today's Decisions with the...

# 1991 U.S. INDUSTRIAL OUTLOOK

## Prospects for 350 Industries with 450 tables and charts

**New in this edition**

International competitiveness profiles
Exports and imports by industry
Major trading partners by industry

Fill out the form below to order your copy of the popular and practical U.S. INDUSTRIAL OUTLOOK now for only $28!

The 1991 edition is also available on microfiche and machine-readable magnetic tape or diskette through the National Technical Information Service. Call (703) 487-4650 for information.

---

Superintendent of Documents **Publications** Order Form

Order Processing Code
* 6958

*Charge your order. It's easy!*
To fax your orders and inquiries – (202) 275-0019

☐ **YES,** please send me the following indicated publications:

_____Copies of the 1991 U.S. INDUSTRIAL OUTLOOK, S/N 003-009-586-8 at $28.00 each.

☐ Please send me your **Free Catalog** of hundreds of bestselling Government books.

The total cost of my order is $_____. (International customers please add 25%.) Prices include regular domestic postage and handling and are good through 6/91. After this date, please call Order and Information Desk at 202-783-3238 to verify prices.

_____
(Company or personal name) (Please type or print)

_____
(Additional address/attention line)

_____
(Street address)

_____
(City, State, ZIP Code)

(_____)_____
(Daytime phone including area code)

**Please Choose Method of Payment:**

☐ Check payable to the Superintendent of Documents
☐ GPO Deposit Account ☐☐☐☐☐☐☐☐-☐
☐ VISA or MasterCard Account
☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐☐

_____
(Credit card expiration date)

*Thank you for your order!*

_____
(Signature)

12/90

**Mail To:** Superintendent of Documents, Government Printing Office, Washington, DC 20402-9325